

Message Text

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ACTION NEA-11

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
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FM AMEMBASSY TRIPOLI
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TAGS: ENRG, EFIN, LY
SUBJECT: LIBYAN PETROLEUM MINISTER INTERVIEW WITH MEES

BEGIN SUMMARY: MIDDLE EAST ECONOMIC SURVEY (MEES) IN MAY 29
ISSUE CARRIES FOUR-PAGE REPORT OF INTERVIEW WITH LIBYAN OIL
SECRETARY MABRUK, ONE OF RARE OCCASIONS ON WHICH LIBYANS SAY
ANYTHING INFORMATIVE ABOUT THEIR OIL INDUSTRY. TOPICS COVERED
ARE OPEC PRICE AND PRODUCTION-CURBING ISSUES, SHIFT OF PLANNED
NEW PIPELINE, REFINERY AND PETRO-CHEMICAL PLANTS AWAY FROM
TOBRUK TO GULF OF SIRTE, CURRENT PRODUCTION LEVEL AND 1978
FORECAST, US TAX PROBLEM, OTHER EXPORT AND DEVELOPMENT MATTERS,
AND NEW AMMONIA/UREA PLANT. FOR THOSE NOT RECEIVING MEES, WE
SUMMARIZE CONTENTS OF REPORT BELOW. SUGGEST PETROLEUM
SPECIALISTS SEE FULL ARTICLE. END SUMMARY.

1. CHANGE OF PIPELINE ROUTE AND REFINERY LOCATION TO AVOID
TOBRUK. THE MAIN NEAR-TERM PROJECT FOR INCREASING LIBYAN OIL
PRODUCTION IS EXPANSION OF SARIR/MUSSALLA OILFIELDS,
SOUTHERNMOST AND EASTERNMOST OF LIBYAN FIELDS. AS PART
OF DOUBLING PRODUCTION FROM THESE FIELDS TO 800,000 BPD
LEVEL BY 1980-81, IT HAD BEEN PLANNED TO BUILD NEW PIPE-
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LINE PARALLEL TO EXISTING LINE TO MARSA HARIGA TERMINAL
NEAR TOBRUK. MABRUK REVEALED THAT DECISION HAS BEEN
MADE TO SHIFT EVACUATION OF NEW OIL TO RAS LANUF TERMINAL
ON GULF OF SIRTE. FOR THIS PURPOSE A NEW PIPELINE WILL
BE BUILT FROM FIELDS TO EXISTING DOUBLE PIPELINE WHICH
RUNS FROM AMAL AND NAFOORA FIELDS TO RAS LANUF AND HAS
SPARE CAPACITY TO CARRY THE NEW OIL. THUS ONLY 200 KM

OF NEW LINE IS REQUIRED COMPARED TO 500 KM FROM SARIR/MUSALLA TO TOBRUK, RESULTING IN A "SUBSTANTIAL COST SAVING." ARTICLE NOTES THAT CHANGE OF DIRECTION OF PIPE-LINE WILL ALSO REQUIRE RELOCATION TO RAS LANUF OF PLANNED 220,000-BPD EXPORT REFINERY, ETHYLENE PLANT AND SYNTHETIC FIBERS PLANT WHICH HAD BEEN SCHEDULED FOR TOBRUK (TRIPOLI 0664). EMBASSY COMMENT: MEES DID NOT PRESS MABRUK ON REASON FOR CHANGE IN PLANS. NEW PIPELINE ROUTE WILL UNDOUBTEDLY SAVE SOME MONEY, A FACTOR WHICH DOES NOT NORMALLY INTEREST THE LIBYANS, AND CONCENTRATION OF PETROLEUM AND PETRO-CHEMICAL INDUSTRY ALONG GULF OF SIRTE SEEMS TO MAKE ECONOMIC SENSE. MOST LIKELY REASON FOR THE MOVE, HOWEVER, IS THE SECURITY FACTOR, I.E. TO REMOVE THESE FACILITIES FROM PROXIMITY TO EGYPT. QADHAFI'S BAD-NEIGHBOR POLICIES ARE THUS DEPRIVING THE TOBRUK AREA OF ECONOMIC DEVELOPMENT. END COMMENT.

2. NEW AMMONIA/UREA PLANT. MABRUK NOTED PLANS ARE STILL ON THE BOOKS TO BUILD A SECOND AMMONIA/UREA PLANT WITH A LARGER CAPACITY THAN THE FIRST (EXISTING AMMONIA PLANT HAS 1,000 TPD CAPACITY; ASSOCIATED UREA PLANT SCHEDULED FOR COMPLETION IN 1979 WILL CONVERT ABOUT 70 PERCENT OF AMMONIA PLANT'S PRODUCTION). LOCATION WILL BE "SOMEWHERE ALONG THE ROUTE" OF PROJECTED GAS PIPELINE FROM MARSA BREGA TO MISURATA WHERE GAS-FIRED IRON/STEEL COMPLEX WILL BE BUILT.

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3. 1978 PRODUCTION LEVELS. MABRUK SAID THAT LIBYA'S EARLIER HOPES FOR EXPORTING 2.3 MILLION BPD OF CRUDE IN 1978 HAD PROVED OPTIMISTIC, BUT HE STILL HOPED FOR AVERAGE EXPORT OF 2.1 MILLION BPD FOR THE YEAR. HE SAID EXPORTS ARE CURRENTLY AT ABOUT 1.8 MILLION BPD AFTER DROPPING TO 1.7 MILLION IN JANUARY AND FEBRUARY. MABRUK CITED RECENT REDUCTION IN POSTED PRICE (TRIPOLI 0670) WHICH RAISED COMPANIES' MARGIN ON EQUITY CRUDE BY ABOUT 12 CENTS PER BARREL, RESTORING MARGIN TO APPROXIMATELY 50 CENTS-PER-BARREL LEVEL PREVAILING IN FIRST QUARTER 1978, AS REASON FOR OPTIMISM. HE DECLARED LIBYA NEEDED THE 2 MILLION BPD-PLUS PRODUCTION TO MEET ITS FINANCIAL REQUIREMENTS, NOTING THAT "WE HAVE FINANCIAL COMMITMENTS AND VERY AMBITIOUS ECONOMIC DEVELOPMENT PLANS" AND "WE NEED THE MONEY." EMBASSY COMMENT: SINCE DOMESTIC REFINING TAKES ABOUT 100,000 BPD, ACTUAL CRUDE PRODUCTION SHOULD BE TAKEN AS ABOUT 0.1 MILLION BPD HIGHER THAN EXPORT FIGURES CITED BY MABRUK. WITH PRODUCTION WELL BELOW 2 MILLION BPD FOR FIRST FOUR MONTHS, IT IS DIFFICULT TO SEE HOW HOPED-FOR 2.2 MILLION BPD PRODUCTION FOR 1978 CAN BE ACHIEVED BARRING A SUDDEN AND DRASTIC SHIFT IN MARKET

CONDITIONS. IN VIEW OF THE MANY REPORTS OF GOVERNMENT'S
CURRENT SLOWNESS IN MEETING ITS FINANCIAL OBLIGATIONS,
LIBYA APPARENTLY DOES "NEED THE MONEY" FROM PRODUCTION
LEVELS SOUGHT BY MABRUK, ALTHOUGH COUNTRY'S NEAR \$5
BILLION OF FOREIGN RESERVES PROVIDES SOME CUSHION
AGAINST DISASTER. END COMMENT.

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4. PRICING. MEES NOTES THAT LIBYA REMAINS A FIRM ADVOCATE
OF RAISING OIL PRICES, BUT THAT IT FOLLOWS THE MARKET
IN SETTING DIFFERENTIAL BETWEEN LIBYAN CRUDES AND
ARABIAN LIGHT MARKER PRICE. MABRUK DECLARED THAT THE
LIBYANS ARE NOT RIGID, HAVE "LEARNED A LOT OVER THE PAST
FEW YEARS," ARE CAUTIOUS WITH CONTRACTS, HAVE SOLID RE-
LATIONS WITH CUSTOMERS, AND HAVE "NO REAL PROBLEMS AS FAR
AS MARKETING IS CONCERNED."

5. OPEC AND THE DOLLAR. ASKED ABOUT THE OUTCOME OF
OPEC'S TAIF MEETING, MABRUK SAID IT HAD GONE "MUCH BETTER
THAN WE EXPECTED" AND THAT MEMBERS NOW FEEL THAT
"NECESSARY REGULATION OF PRODUCTION WILL COME ABOUT, ONE
WAY OR ANOTHER." HE SAID IT WAS ESPECIALLY IMPORTANT TO
HAVE REGULATION IN THE SHORT TERM AND THAT HE WAS PRE-
PARED TO ACCEPT ANY FEASIBLE MEANS, FORMAL OR INFORMAL.
MABRUK SAID HE STILL HOPED FOR AN OPEC DECISION TO INCREASE
THE DOLLAR PRICE OF OIL AT JUNE 17 GENEVA CONFERENCE,
DECLARING "WE MUST TACKLE THIS MATTER IN A RADICAL
AND PROFOUND MANNER AND CONSIDER ANOTHER UNIT OF
ACCOUNT FOR OIL PRICING. THE DOLLAR IS BEING USED AS A

MEANS OF DECREASING THE PRICE. EVERYONE IS SUFFERING
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DEPRECIATION, WE HAVE LOST 70 PERCENT OF OUR PURCHASING
POWER SINCE 1973. BY ANY ECONOMIC CRITERIA WE HAVE THE
RIGHT TO ADJUST PRICES. I ONLY HOPE THAT POLITICAL CON-
SIDERATIONS WILL NOT CONTINUE TO PREVAIL AS THEY HAVE
DONE IN THE PAST."

6. U.S. INTERNAL REVENUE SERVICE PROBLEM. MABRUK DECLARED
LIBYA HAD NO PROBLEMS WITH OIL COMPANIES OPERATING HERE,
SAYING THAT THE LATTER'S COMPLAINTS ABOUT REDUCED MARGINS
IN THE SECOND QUARTER HAD BEEN MET BY POSTED PRICE
REDUCTION OF MAY 1. CONCERNING THE PROBLEM OF ADJUSTING
PROCEDURES FOR TAXING OF U.S. COMPANIES' INCOME
TO SATISFY U.S. INTERNAL REVENUE SERVICE REQUIREMENTS,
MABRUK SAID IT WAS HOPED TO SOLVE THIS QUESTION BEFORE
JULY WHEN U.S. TAX RETURNS HAVE TO BE FILED. "WE HAVE
TO FIND A SOLUTION WHICH WILL PRESERVE OUR INCOME, AND
AT THE SAME TIME MAINTAIN THE COMPANIES' MARGIN. THIS
IS REALLY JUST A LEGAL QUESTION."

7. OTHER EXPLORATION AND DEVELOPMENT MATTERS. MABRUK
SAID PIPE FOR CONSTRUCTION OF AN 18-INCH PIPELINE FROM
SMALL FIELDS IN WESTERN LIBYA TO THE ZAWIA REFINERY HAD
BEEN CONTRACTED FOR IN JAPAN, AND FINALIZATION OF CON-
STRUCTION CONTRACTS WAS EXPECTED IN THE NEAR FUTURE.
OCCIDENTAL WILL PUT INTO PRODUCTION THIS YEAR THREE NEW
FIELDS IN ITS 19/81 PERCENT BLOCK NC 74 AT A COMBINED
INITIAL RATE OF 75,000 BPD. MOBIL IS DEVELOPING NEW
ONSHORE FINDS WHICH WILL OFFSET DECLINES IN CURRENT
FIELDS AND PERMIT IT TO MAINTAIN PRESENT OUTPUT OF
90,000-100,000 BPD AND PERHAPS A SMALL INCREASE.
MABRUK'S REMARKS ON OFFSHORE DISCOVERIES WERE APPARENTLY
MORE CONSERVATIVE THAN IN HIS MEES INTERVIEW OF LAST
FALL, SINCE MEES REPORTS ONLY THAT ELF/AQUITAINE AND
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AGIP OFFSHORE FINDS WEST OF TRIPOLI "LOOK TO BE VERY
PROMISING CANDIDATES FOR DEVELOPMENT, THOUGH THE SITUA-
TION IN THE AREA IS SOMEWHAT COMPLICATED BY THE OFFSHORE
BOUNDARY DISPUTE WITH TUNISIA." MABRUK SAID COMPANIES
HOLDING THE 19/81 PRODUCTION SHARING AGREEMENTS ARE
MEETING THEIR OBLIGATIONS, BUT EXPLORATION IN LIBYA
COULD NEVERTHELESS "DO WITH A BIT OF A BOOST." ASKED
WHETHER THE GOVERNMENT WERE OPEN TO FURTHER EXPLORATION

DEALS ON A PRODUCTION-SHARING BASIS, MABRUK REPLIED
"YES. WHY NOT? WE WOULD WELCOME HEARING FROM ANY
INTERESTED COMPANIES - PARTICULARLY MAJORS."

8. TANKERS. MABRUK NOTED THAT DESPITE SLUMP IN TANKER
MARKET, ALL OF LIBYA'S 1.1 MILLION DEADWEIGHT TONS OF
TANKERS ARE CURRENTLY IN OPERATION - MAINLY ON SPOT
MARKET, ALTHOUGH SOME ARE ON TERM CHARTER. NO ADDITIONS
TO THE FLEET ARE PLANNED AT PRESENT.
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